TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 2649 – HB 3052

February 16, 2012

SUMMARY OF BILL: Increases, from $1,000,000 to $5,000,000, the maximum single allowable exemption for state inheritance tax on estates of decedents dying in tax year 2012. Requires the single maximum exemption for state inheritance tax to match the exemption authorized by federal law. Eliminates distinction of Class A and Class B donees for the purpose of gift tax, and redefines "donee" to mean any person, association, corporation, or any other entity to whom a gift is made. Sets gift tax rates at currently established rates for Class A donees. Establishes that the maximum single allowable exemption for state gift tax match the federal inflation-adjusted exclusion amount authorized by federal law.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - $67,034,300

Increase Local Revenue - $978,300

Other Fiscal Impact - Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- One hundred percent of inheritance tax revenue and gift tax revenue is allocated to the General Fund.
- According to the Department of Revenue (DOR), inheritance tax collections in FY10-11 were $97,875,967. This number is assumed to remain constant in subsequent years under current law.
- Given this bill shall apply to net taxable estates for tax year 2012, and the current nine-month filing extension following a decedent's death, the first fiscal year in which state revenue will be impacted is assumed to be FY12-13.
- One hundred percent of estates of decedents dying in tax year 2012 will be settled no later than June 30, 2013 (or by the end of FY12-13). It is assumed this collection pattern will continue into perpetuity.

- Based on information provided by the Department of Revenue, approximately 69.4 percent of inheritance tax revenue would be eliminated as a result of this bill. Therefore, the recurring decrease in inheritance tax revenue is estimated to be $67,925,921 ($97,875,967 x 69.4%).
- According to DOR, gift tax revenue in FY10-11 was approximately $15,480,000. This number is assumed to remain constant in subsequent years under current law. Based on information provided by DOR, approximately 9.2 percent of gift tax revenue would be eliminated as a result of this bill. Therefore, the recurring decrease in gift tax revenue is estimated to be $1,424,160 ($15,480,000 x 9.2%).
- The total recurring decrease in inheritance tax revenue and gift tax revenue is estimated to be $69,350,081 ($67,925,921 + $1,424,160).
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The recurring increase in state sales tax revenue is estimated to be $2,427,253 ($69,350,081 x 50.0% x 7.0%); the recurring increase in local option sales tax revenue is estimated to be $866,876 ($69,350,081 x 50.0% x 2.5%).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- The recurring increase in local revenue due to the state-shared allocation is estimated to be $111,472 ($2,427,253 x 4.5925%).
- The net recurring increase in state sales tax revenue is estimated to be $2,315,781 ($2,427,253 - $111,472).
- The total recurring increase in local revenue is estimated to be $978,348 ($866,876 + $111,472).
- The total net recurring decrease in state revenue as a result of this bill is estimated to be $67,034,300 ($69,350,081 - $2,315,781).
- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by passage of this bill. Increases in revenue may occur if the state's population increases as a result of a reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increase as a result of population increases. Due to multiple unknown factors such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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